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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE CHAIRMAN	PAUL NEWMAN COMMISSIONER	BOB STUMP COMMISSIONER
SANDRA D. KENNEDY COMMISSIONER	BRENDA BURNS COMMISSIONER	

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2012 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN AND DISTRIBUTED ENERGY ADMINISTRATIVE PLAN AND REQUEST FOR RESET OF RENEWABLE ENERGY ADJUSTOR	**DOCKET NO. E-01933A-11-0269** **SOLARCITY'S COMMENTS ON TEP 2012 REST IMPLEMENTATION PLAN**

SolarCity Corporation ("SolarCity"), by its counsel undersigned, hereby offers its preliminary comments on Tucson Electric Power Company's ("TEP") 2012 Renewable Energy Standard Implementation Plan filed on July 1, 2011.

Respectfully submitted this 15th day of August, 2011.

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Original and 13 copies filed on
this 16th day of August, 2011 with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
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I hereby certify that I have this day served the foregoing documents on all parties of record in this proceeding by sending a copy via electronic mail to:

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Re: ***In the matter of the application of Tucson Electric Power for approval of its 2012 Renewable Energy Standard Implementation Plan; Docket No. E-01933A-11-0269***

Dear Chairman Pierce and Commissioners,

SolarCity appreciates the opportunity to comment on the above referenced docket regarding the 2012 RES Implementation Plan filed by TEP. We commend the efforts made by TEP and the Commission to grow southern Arizona's renewable energy industry. However, as SolarCity is committed to what is in the best interest of our customers, we offer the following brief comments on TEP's proposed plan.

<u>Leased system rebate differential</u>

We are extremely concerned about the proposal within TEP's plan to offer leased systems a significantly lower rebate than that offered to systems purchased by a homeowner. This proposal directly punishes homeowners who choose to employ one type of financing over another. TEP's plan states:

TEP has continued to experience great success with its UFI and PBI programs. Thus, the following refinements to the RECPP are appropriate for 2012. Residential incentives will be reduced from $2.00 per watt to $1.75 per watt, with the exception of residential leases, which will be offered at $1.00 per watt. Small commercial incentives will remain the same at $1.50 per watt.

No explanation is provided in TEP's implementation plan for this proposal, which would provide a significantly lower incentive to customers who lease their residential PV system from a third party, rather than purchasing the system. This provision unnecessarily threatens affordable customer-sited distributed generation within TEP's service territory and punishes customers based upon the financing decision that they make. The bottom line is that a homeowner should receive the same incentive regardless of how they choose to finance their solar system.

Such a change to TEP's program would serve to discriminate against customers who lease PV systems from a third party. Importantly, the availability of leased solar systems in TEP's service territory equalizes access to solar for those who otherwise cannot afford it. All residential ratepayers pay equally for the costs of the utility's solar program and should therefore all be equally able to participate in the program. However, the proposed incentive disparity in TEP's plan unfairly relegates less affluent ratepayers to second class status and threatens their access to a program that they must pay into.

We believe that the high upfront cost of solar is a formidable barrier to adoption and we have tried to take that barrier away by offering no – or low- upfront cost installations. However, SolarCity's ability to offer homeowners this option depends on utilizing incentives such as utility rebates and the federal investment tax credit.

SSVEC recently proposed providing leased systems in their territory with a lower rebate (Docket E-0157A-10-308) and this proposal was rejected outright by the Commission. The precedent set, therefore, was that the ACC will not allow utilities to discriminate against homeowners who choose to lease systems from a third party.

It is important to note that leased systems cost the same to install as systems that are purchased outright. Leased residential systems use the same equipment, labor, permits, designs, etc. as systems that are purchased by homeowners. Therefore, the costs to install systems are the same regardless of who owns them.

At the same time, leased systems have the added benefit of being monitored and maintained by the third party owner. SolarCity provides leased systems with operation and maintenance services that include free inverter replacement, and continual remote monitoring that ensures systems are producing at their highest capacity. Systems are also provided with an energy production guarantee. In fact, SolarCity's leased systems tend to outperform comparable purchased systems, thereby providing ratepayers and the utility with more clean energy for their investment.

There is no reason to be concerned about the length of time that a leased solar installation will be on a homeowner's roof as compared with a system that is purchased. When a homeowner installs a purchased system on their house, they are under no obligation to keep it on their roof for any specified length of time. However, when SolarCity installs a system on a homeowner's roof, the homeowner signs a contract that states their intent to leave the system on their roof for 20 years. If the homeowner breaks or defaults on their lease with SolarCity, we will make every effort we can to redeploy the system, at no extra cost to the utility, within the utility's service area. Homeowners who own their own system and leave their homes or whose homes are foreclosed will be unlikely to make any comparable effort at redeployment or system maintenance and production.

While third-party owned systems also can receive depreciation benefits under federal law, homeowners have a similar financing option: the home equity loan. In fact, the tax benefits in a home equity loan are actually greater than the tax benefits provided by depreciation.[1] Therefore, because all homeowners have access to this benefit, it would be inequitable to penalize customers who lease systems simply because those systems may receive different types of tax benefits.

Additionally, TEP's proposal would also interfere with market competition amongst residential solar installers in Arizona. Allowing installers who sell customer-owned systems the ability to market a system that benefits from a larger TEP rebate relative to an equally-sized system that is sold by installers with a leasing model provides a policy-driven, not market-driven, advantage for one segment of the solar industry. We believe that fair competition amongst installers is critical to the long-term efficiency and success of Arizona's growing solar industry.

Finally, it is worth noting that requiring leased solar systems to claim a lower incentive than systems that are purchased would be at odds with every other utility in the state. There is no precedent for this action as all other utilities offer those who choose leased systems the same incentive as homeowners who choose to purchase their system.

We are concerned that TEP has provided no explanation for their proposal to provide significantly lower incentives for customers who lease their residential PV system from a third party, rather than purchasing the system although this provision threatens affordable customer-sited distributed generation within TEP's service territory.

Overall, leased systems provide TEP with superior reliability and production while making solar accessible to the less wealthy. Therefore, such systems should not be penalized compared to systems that are purchased outright. They should be provided at least the same incentive level as purchased systems and, if anything, leased systems should be offered a higher incentive because they provide additional benefits to the homeowner and the utility.

<u>W9 reporting for solar incentives</u>

Starting in 2010, TEP, along with the other utilities in the state, began providing W9s to customers in return for the solar incentives they received from the utility. Because SolarCity's customers are not the owners of their systems, we felt that it would be unfair to serve them with a W9 and the resulting tax payment. TEP and all of the other utilities in the state concurred. Therefore, SolarCity is now able to list our investment funds as the owners of each system and the W9 is subsequently provided to the fund.

However, it is problematic for SolarCity that, unlike the other large state utilities, TEP requires us to provide the name of the owner of the system at the time of the initial rebate application. Instead, it would be preferable if TEP would adopt the same practices followed by APS and SRP and not require companies to list the name of the system owner until after installation, for example, when we send the completion certificate which triggers the incentive claim to be paid. Up until that point, the reservation will be in the name of the homeowner.

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[1] Calculations are for a fixed-rate 20-year home equity loan, which is most comparable to the 20-year Solar Lease offered by SolarCity, using a system value of $20,000.

Because we work with a number of financing entities in order to provide our customers with low- or no-upfront cost installations, we must decide which of the entities are able to provide the most favorable economics as the owners of a system. However, the most efficient investment partner to use can only be figured out further along in the installation process due to the varying (and often changing) characteristics of each customer agreement. TEP's current process requires us to name that financing entity early on in the process and that results in inefficiencies in the economics of the project, thereby increasing the cost of doing business in southern Arizona.

We would request that TEP amend its W9 policies to mirror those of other large utilities in the state and not require the name of the ultimate owner of the system until the completion certificate is submitted to them.

System cost reporting on AZgoessolar.com

On the TEP application for solar incentives, companies are required to state the purchase price of the system they are selling. This is problematic because under a lease transaction, there is no sale to a homeowner and therefore no purchase price for a system. Any $/Watt number "equivalent to cash prices" for the same system is theoretical as it reports the "price" for a transaction that never occurred.

In a lease or PPA transaction, the "sale" takes place when the solar developer transfers the system to an institutional investor. This "sale" may be a literal sale, or is sometimes a contribution of assets into a partnership. Ultimately, the investor pays for what it is worth to them as *an investment property*. This value includes several items – like a performance guarantee and anticipated income streams—that do not have any equivalents in a customer cash purchase. Reporting this investment price (as SolarCity does currently on rebate applications) results in an apples-to- oranges comparison between systems sold to residential/commercial customers and those sold to institutional investors. It also obscures any analysis of the underlying installation costs.

When compared with the prices of actual purchased systems that are reported on the Arizona Goes Solar website, it may look as though leased systems are disproportionately more expensive. However, as explained above, this is not the case. Given the popularity and prevalence of leased systems throughout the state, we encourage the ACC to require utilities to include a separate column that details the cost of leased systems specifically. The best price for lease providers to report is the *price of the lease* as evidenced by the rate charged to the customer (instead of the *price of the system underlying the lease* which doesn't exist). This price is in the form of a down payment and a $/kW monthly charge over a given term.

We encourage all administrators to adapt their reports to reflect realities within the market. With lease and PPA transactions now representing a significant proportion of the overall market, the data-gathering purposes served by price reporting are most accurately served by reporting on the actual transaction that occurred, as it occurred – whether cash, lease, or SSA.

Additional funding for residential incentives

We notice that a significant amount of TEP RES funding—approximately $1.5 million or 14% of the total residential incentive budget—is slated to go toward research and development projects as well as demonstration projects undertaken by TEP. We would encourage the ACC to look closely at these expenditures to determine which are really necessary and to put any remaining funds into the solar incentive program.